



**REDUÇÃO DE RISCO DE INVESTIMENTO NO USO BOP UM ESTUDO DE CASO DA  
REDE DE INOVAÇÃO DA FUNDAÇÃO PRÓ-VIVIENDA SOCIAL (FPVS)**

**LOWERING INVESTMENT RISK AT THE BOP USING NETWORK INNOVATION  
FUNDACIÓN PRO VIVIENDA SOCIAL (FPVS) CASE**

**DISMINUCIÓN DEL RIESGO INVERSIONISTA EN LA BOP MEDIANTE LA RED  
FUNDACIÓN PRO-VIVIENDA SOCIAL. UN ESTUDIO DE CASO**

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## **REDUÇÃO DE RISCO DE INVESTIMENTO NO USO BOP UM ESTUDO DE CASO DA REDE DE INOVAÇÃO DA FUNDAÇÃO PRÓ-VIVIENDA SOCIAL (FPVS)**

### **RESUMO**

Mais de 2 milhões de pessoas na periferia da área metropolitana de Buenos Aires moram em bairros com acesso limitado à educação, crédito, saúde e serviços básicos (Goytia e Lanfranchi, 2009). Com quase 4 bilhões de pessoas vivendo em pobreza no mundo de hoje, esta situação não é exclusiva para Buenos Aires. Tamanho do mercado econômico deste "Base da Pirâmide" (BOP) faz com que seja impossível de ignorar, no século 21 (Pralhad e Hart, 2002). Infelizmente, porém, a maioria das empresas privadas não tiveram em conta dessas populações e, portanto, negada a oportunidade de participar na economia global. Este artigo descreve como a Fundação de Habitação Social (FPVS) procura corrigir esta situação, fornecendo os laços econômicos com o BOP. Este estudo de caso, com base nos testemunhos e experiências dos participantes, detalhes do esforço para criar oportunidades de negócios financeiramente sustentável tanto para o setor privado para o BOP. Maneira específica, o estudo está relacionado com o papel de facilitador FPVS como empresários e comunidades pobres para realizar negócios com a Base da Pirâmide (BOP). O testemunho deste estudo de caso, além da experiência dos pesquisadores e da literatura de negócios, foi o caminho escolhido. Sendo um estudo longitudinal, neste caso, examina como as percepções e as relações mudam com o tempo. Com base na Rede de Desenvolvimento de Modelo de Negócios, o estudo centra-se na co-geração de valores para todas as partes, dentro de uma estrutura sustentável. Especificamente, o caso é FPVS relacionados equalização papel no desenvolvimento da infra-estrutura mutuamente benéfico. Desde 1995 FPVS enfocou a melhoria da habitação e desenvolvimento de infra-estrutura. Através de seus projetos, o FPVS mostrou que o trabalho com comunidades de baixa renda envolve alto risco, mas um bom negócio. A fundação acredita que as comunidades organizam em torno de mobilização de eventos relacionados à melhoria dos padrões de vida, você pode criar o capital social necessário para quebrar o ciclo da pobreza (Lanfranchi, 2005). Em áreas onde atua, a FPVS desenvolveu uma estratégia para organizar as demandas da comunidade de bens e serviços e combiná-los com a sua disposição. Estes tipos de estratégias têm sido descritas por Granovotte (1983) como a "fechar os buracos estruturais". Um aspecto importante deste estudo é que ele ilustra a necessidade de transcender os modelos de negócio tradicionais no desenvolvimento de empresas de sucesso com o BOP. O estudo também destaca como a abordagem FPVS é consistente com os recentes avanços na literatura do BOP (Pralhad, 2006). Por exemplo, o relatório mostra como as estratégias de FPVS incorpora os conceitos de inovação em administração de empresas (Kandachar, 2008), redes de negócios (Hakansson e Snehota, 1995) e radical transactibilidad (Hart e Simanis, 2005; Simanis e Hart, 2008). Mais significativamente, este estudo mostra como criar um intercâmbio econômico sustentável e mutuamente benéfica entre empresas privadas e da BP.

**Palavras-chave:** Negócios; Base da Pirâmide; Inovação; Gerenciamento; Infraestrutura.

## LOWERING INVESTMENT RISK AT THE BOP USING NETWORK INNOVATION FUNDACIÓN PRO VIVIENDA SOCIAL (FPVS) CASE

### ABSTRACT

More than 2 million people from the outskirts of the Buenos Aires Metropolitan Region live in neighborhoods with restricted access to education, credit, healthcare, and basic services (Goytia and Lanfranchi, 2009). With nearly 4 billion people now living in poverty world wide, this situation is not unique to Buenos Aires. The size of this “Base of the Pyramid” (BOP) economic market makes it impossible to ignore in the 21<sup>st</sup> century (Prahalad and Hart, 2002). Unfortunately however, most private businesses have overlooked this population and thereby denied it the opportunity to participate in the global economy. This article describes how Fundación Pro Vivienda Social (FPVS) seeks to rectify this situation by facilitating economic engagement with the BOP. This case study, based on the testimony and experiences of participants, details the effort to create financially sustainable business opportunities for both the BOP and private sector. Specifically, this study deals with FPVS’s role as a facilitator between businesses and poor communities in doing business with the Base of the Pyramid, (BOP). Testimony from this real case study in addition to the experience of the researchers and current business literature was the chosen path. As a longitudinal study, the case looks at how perceptions and relationships change over time. Based on the Developing Business Network Model, this article looked at the co-creation of value for all the parties within a sustainable framework. Specifically, the FPVS case deals with the foundation’s leverage function in developing mutually beneficial infrastructure solutions. Since 1995, FPVS has focused on housing improvements and infrastructure development. Through its projects, FPVS has demonstrated that working with low-income communities is not high-risk, but rather good business. The foundation believes that by organizing communities around mobilizing events related to standard of living improvements, it can create the social capital necessary to break the poverty cycle (Lanfranchi 2005). In the areas where it operates, FPVS has developed strategies to organize community demand for goods and services and match it with suppliers. These types of strategies have been described by Granovette (1983) as ‘solving structural holes’. An important aspect of this study is that it illustrates the necessity of transcending traditional business models when developing successful enterprises with the BOP. It also highlights how the FPVS approach is consistent with recent advances in BOP literature (Prahalad, 2006). For example, the report shows how FPVS strategies incorporate the concepts of business management innovations (Kandachar, 2008), business networks (Hakansson and Snehota, 1995), and radical transactivity (Hart and Simanis, 2005; Simanis and Hart, 2008). Most significantly, this study demonstrates how to create a sustainable and mutually beneficial economic exchange between private businesses and the BOP.

**Keywords:** Business; Base of the Pyramid; Innovation; Management; Infrastructure

## DISMINUCIÓN DEL RIESGO INVERSIONISTA EN LA BOP MEDIANTE LA RED FUNDACIÓN PRO-VIVIENDA SOCIAL. UN ESTUDIO DE CASO

### RESUMEN

Más de 2 millones de personas en la periferia de la Región Metropolitana de Buenos Aires viven en barrios con restringido acceso a educación, créditos, salud y servicios básicos (Goytia y Lanfranchi, 2009). Con cerca de 4 mil millones de personas viviendo hoy en la pobreza a nivel mundial, esta situación no es única de Buenos Aires. El tamaño del mercado económico de esta “Base de la Pirámide” (BOP) hace que sea imposible ignorarlo en el Siglo 21 (Prahalad y Hart, 2002). Desafortunadamente, sin embargo, la mayoría de los negocios privados no han tenido en cuenta estas poblaciones y en consecuencia le niegan la posibilidad de participar en la economía global. Este artículo describe cómo la Fundación Pro Vivienda Social (FPVS) procura rectificar esta situación facilitando vinculación económica con la BOP. Este estudio de caso, basado en los testimonios y las experiencias de los participantes, detalla el esfuerzo para crear oportunidades de negocio financieramente sustentables, tanto para el sector privado como para la BOP. De modo específico, el estudio está relacionado con el rol de la FPVS como facilitador entre hombres de negocio y las comunidades pobres, para llevar a cabo negocios con la Base de la Pirámide (BOP). Los testimonios de este caso real, en adición a la experiencia de los investigadores y la literatura de negocios, fue el camino escogido. Siendo un estudio longitudinal, este caso analiza cómo las percepciones y las relaciones cambian en el tiempo. Con base en el Modelo Red de Desarrollo de Negocios, el estudio se enfoca en la cogeneración de valores para todas las partes, dentro de un marco sostenible. Específicamente, el caso de la FPVS tiene relación con su función ecualizadora en el desarrollo de infraestructuras mutuamente beneficiosas. Desde 1995 la FPVS se ha enfocado al mejoramiento de la vivienda y el desarrollo de infraestructuras. Por medio de sus proyectos, la FPVS ha demostrado que trabajando con las comunidades de bajos ingresos no implica un alto riesgo, sino más bien un buen negocio. La fundación cree que organizando a las comunidades alrededor de eventos movilizadores que se relacionan con el mejoramiento de sus niveles de vida, puede crearse el capital social necesario para quebrar el ciclo de la pobreza (Lanfranchi, 2005). En las áreas donde ella opera, la FPVS ha desarrollado estrategia para organizar las demandas de las comunidades por bienes y servicios y hacerlas corresponder con su suministro. Estos tipos de estrategias han sido descritas por Granovotte(1983) como de “cerrar los huecos estructurales”. Un importante aspecto de este estudio es que ilustra la necesidad de trascender a los modelos tradicionales de negocios cuando se desarrollan empresas exitosas con la BOP. El estudio también resalta como el enfoque de la FPVS es consistente con los recientes avances en la literatura de la BOP (Prahalad, 2006). Por ejemplo, el informe muestra cómo las estrategias de FPVS incorpora los conceptos de innovación en la administración de negocios (Kandachar, 2008), las redes de negocios (Hakansson y Snehota, 1995) y transactividad radical(Hart y Simanis, 2005; Simanis y Hart, 2008). De forma más significativa, este estudio muestra cómo crear un intercambio económico sustentable y mutuamente beneficioso entre los negocios privados y la BOP.

**Palabras -claves:** Negocios; Base de la Pirámide; Innovación; Administración; Infraestructura.

## 1 INTRODUCTION

In the outskirts of the Buenos Aires metropolitan region, known as the “second belt”, more than 2 million people live in neighborhoods with a severe lack of urban infrastructure. The homes in this area are generally self-constructed and dilapidated, without natural gas or indoor plumbing connections. These neighborhoods lack paved roads and adequate sewage and drainage systems. As a result, second belt residents face obstacles in accessing education, credit, healthcare, and basic services.

At the same time as there is a high demand for infrastructure improvements in these neighborhoods there is also a willingness to pay for it. However, Buenos Aires's private utility companies are hesitant to form contractual relationships with low-income families because they perceive them as high-risk customers. Furthermore, most of these communities remain unorganized and unable to pool their resources to gain leverage in negotiations with utility companies.

### 1.1 POVERTY AND THE LACK OF ACCESS TO BASIC SERVICES IN SEMI-URBAN LOW INCOME NEIGHBORHOODS

Second belt residents have been, by default, the primary builders of their neighborhoods. Developers have generally not undertaken projects in these areas because they are often uncertain about the residents' ability to pay and the Argentine government has failed to promote comprehensive policies that would encourage development in these areas. Moreover, the residents have not managed to organize themselves in such a manner as to attract the investment of companies which have not traditionally considered the BOP as part of their market.

Clearly, the absence of infrastructure is strongly linked to poverty. A statistical examination of second belt neighborhoods using geo-referenced analysis found a strong correlation (0.72) between neighborhoods with an infrastructure deficit and those with problems associated with poverty (Goythia and Lanfranchi, 2007).

The problem is not that these sectors are completely deprived of resources. Rather, it is an issue of unsatisfied demand for goods and services. This demand goes unmet because of the failure of external businesses to expand into the second belt, despite the fact that most families possess the ability to make necessary purchases. Thus, despite a demand and ability to pay, the poor in Buenos Aires have in general been unable to close the infrastructure deficit.



## 2 CASE STUDY: FUNDACION PRO VIVIENDA SOCIAL (FPVS)

### 2.1 PUBLIC GOODS FROM PRIVATE INFRASTRUCTURE PROJECTS IN LOW INCOME NEIGHBORHOODS OF THE BUENOS AIRES METROPOLITAN REGION

Since 1995, FPVS has promoted housing solutions in low income neighborhoods through the creation of microcredit solidarity groups. The organization has integrated itself into the community and has created a forum where business and community needs have converged to improve the quality of life in the second belt. In 1999, The Foundation conducted a survey in the neighborhood of Moreno in Greater Buenos Aires (GBA) in order to better understand the most urgent needs of the residents. In this survey, the population indicated their greatest concerns to be the lack of infrastructure and access to basic services in their neighborhoods. They needed natural gas, drainage systems, running water, and paved roads. The lack of these services significantly impacted the quality of life in the area. It also created a strong disincentive to making basic housing investments since the construction costs exceeded the market value - a direct result of the deficient infrastructure in the area.

In order to effect communal change, a “mobilizing event” must first be identified. The mobilizing event must involve a sufficiently widespread issue so that it will motivate the members of the community to offer their resources (time and money) in pursuit of a common objective. At the same time, a mobilizing event must generate interest among state and private companies to encourage them to invest financial resources in the realization of the goal. This sector of BoP urban communities was a market ready to be penetrated (Kandachar, 2008). Reflected innovation, in the way that the network keep and share a same goal; co creating a mutual ownership with joined activities, resources and bonds for their interactions.

In addition to making infrastructure improvements, an important collateral result of this process was that it acted as a catalyst for changing the relationship between the community and suppliers. (Lanfranchi, 2005). Another significant by product is a change in attitudes among the residents, because they are forced to be less passive, assume risks, and realize their ability to influence and transform their situation.

FPVS’s initial project focused on bringing natural gas pipelines to Moreno, a much cheaper fuel source than the propane cylinders currently used. FPVS and its community partners began this project in 2000, just as the Argentinian economic crisis began to spread throughout the country.

At the same time, the FPVS project was presented at the World Bank's "Development Market Place Competition." The FPVS project ended up winning the competition and was subsequently awarded USD 250,000. This was crucially important to the launch of the gas initiative.

Argentine regulations state that the company that distributes gas, Gas Natural Ban , is not allowed to expand its network of gas lines. Thus, the traditional method of gas network expansion is through contractual arrangements between municipal governments and gas line construction companies. These companies generally agree to pay for the upfront cost of new lines on the condition that they are repaid by the government after completion and the taxes on the lines are paid. However, this system fails to work in poorer areas, where construction companies are uncertain as to whether the taxes will be paid and if they will be able to recover their costs.

In Moreno, FPVS utilized a new model designed to bring gas services to poor neighborhoods. The residents, rather than the municipal government, were the initiators of the project and a neighborhood board contracted directly with the construction company, with the local government serving as a facilitator during the negotiation of the construction agreement. The new model thus involved different players and was more collaborative with the community.

Cuartel V was chosen as the location for the gas project based on the following considerations. First, the area had relatively easy access to an existing main gas line and was thus technically feasible. Second, the area had a high concentration of clients in FPVS's microcredit program and thus offered lower promotion costs because many residents already had experience with the organization (20% in this case). Initially, there were three main groups involved in the project: FPVS, financial organizations (World Bank, Foncap), and the residents and their grassroots organizations.

FPVS secured the support of Foncap, an Argentinian organization in charge of state-supported funding. To launch the pilot project, Foncap, comprised of representatives from both the public and private sectors, designated AR\$3,000,000 (or approximately US\$1,000,000 ) for the execution of the project.

In addition to acquiring financial support, it was vitally important to demonstrate that the community was committed to organizing itself for the ambitious infrastructure project. For this reason, and with the aim of increasing the social capital among the community members, the project created an advisory board of local organizations.

Equally important was the involvement of the residents in promoting the project. Their promotion was necessary to achieve the required number of natural gas customers to make the

project financially feasible. Over the course of 2 years, 43 community groups became involved in the project, creating an organization dubbed Comunidad Organizada (Organized Community) by the neighbors (the photo shows some of the coop members). The Comunidad Organizada formed a commission that actively participated in promotion and management of the project.

The Comunidad Organizada, was fundamental in achieving the required level of adherence to justify the installation of the lines. This organization was accompanied by a new sub-level of management known as la manzana organizada (organized block). In this way, every interested family could personally be in charge of persuading their closest neighbors – those within their own block – to comply with the program in order to achieve the required seventy percent adhesion to guarantee the project's sustainability.

### 2.1.1 LEGAL INSTRUMENTS

A Fideicomiso (trust fund) was considered the best mechanism with which to manage the project's resources. The trust fund provided a transparent way to pool money from different sources and contributors. Moreover, this structure permitted the beneficiary community members to appropriate both the funds and the surplus, allowing them to potentially utilize the Fideicomiso again for future development projects in the area.

### 2.1.2 PROJECT SUCCESS

August of 2003 saw the inauguration ceremony of the main gas line. During the time of Argentina's 2001-2002 crisis the FPVS project represented the largest gasification initiative in the country. In 2004 the first internal connections were completed.

Following these initial successes, FPVS organized a technical office that was in charge of constructing the over 2,500 (two thousand five hundred) lines required to connect the main line with the individual houses. This occurred because at the time, there were no firms interested in working in the area, and the individual gas-workers did not have the capacity to support that level of demand. The resulting economies of scale lowered the total cost of installation by thirty percent. Meanwhile, Gas Ban adopted a more proactive attitude and made a significant investment to build a gas distribution network.

Today, in 2009, the level of adhesion in the area has been more than satisfactory and stands right around the seventy percent that initially required. The new project aims to benefit 10,000 with



a total investment of US\$10,000,000 which might be financed by FOMIN (IADB) and a local bank. Scaling the model is the next step and challenge for FPVS. The purpose is to find a design of a new prototype based on the pilot project.

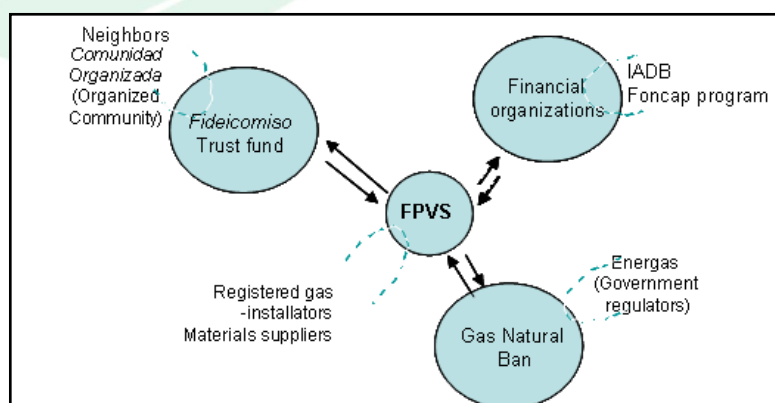
### 3 THEORETICAL MODEL

In contrast to the Hakansson and Snehota Model (“Analysing, Developing Relationships in Business Networks” (1995)), the FPVS approach transcends conventional business models. The key to this new paradigm is interdependency: recognizing and utilizing what each individual participant is able to contribute to a single business initiative.

#### 3.1 ANALYZING RELATIONSHIPS

A relationship is defined by interaction between two reciprocally committed parties. Figure 1 illustrates the links between the key players and the important facilitator role of FPVS. The power of the network will be qualitatively better and surpass the ability of the parts acting independently.

**Figure 1** - Business networks are more significant than the contribution of each part.



Source: Hakansson and Snehota, 1995.

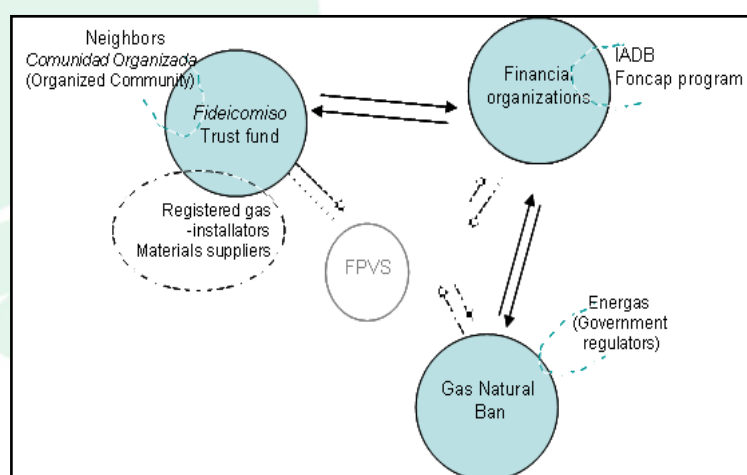
It takes time to formulate a workable network framework and external and internal changes occur among the participants throughout the building process. The network then acts as a pool of new norms, power representations, and influences on radical decisions (WRI, 2008; Hakansson and Snehota, 1995). The external conditions that influence the entrepreneurial acts of the people, independent of the collective actors, affect the whole network (systemic result). For example, in the

case of FPVS, the community began in a non-articulated way but it was able to build solid social connections. The result was a new business network with a reconfiguration of actors, activities and bonds.

FPVS gave the individuals and institutions the ability to perform their functions, solve problems, and set and achieve objectives. It is also this set of attributes, capabilities, and resources of an organization that enable it to undertake its mission (UNDP 2008; WRI, 2008). The community became empowered and resilient, through the interaction of these processes, and began to feel ownership of the project. They added more capacity and connection, co-creating the network.

In the future, FPVS could change its purpose in the network causing the previous role to disappear and leaving the managerial aspects to others. FPVS may end up building other relationships with new players or simply beginning a new project (see Figure 2).

**Figure 2 - FPVS key role in the future.**



Source: Hakansson and Snehota, 1995.

### 3.1.1 LESSONS FROM THE MODEL: NETWORK, RESOURCES AND ACTIVITIES

One must have an understanding of business networks and the specific processes that effect change in the network. The following is an overview of the basic actors: Organized Community, Financial Organizations, Gas Ban, and FPVS. Key to the project's success were the relationships and distribution of activities between these main actors. For example, the residents were able to gain access to natural gas service through organizing their resources and participating in the FPVS trust fund. Similarly, FPVS was able to assist Gas Natural's gas line construction by acting as a

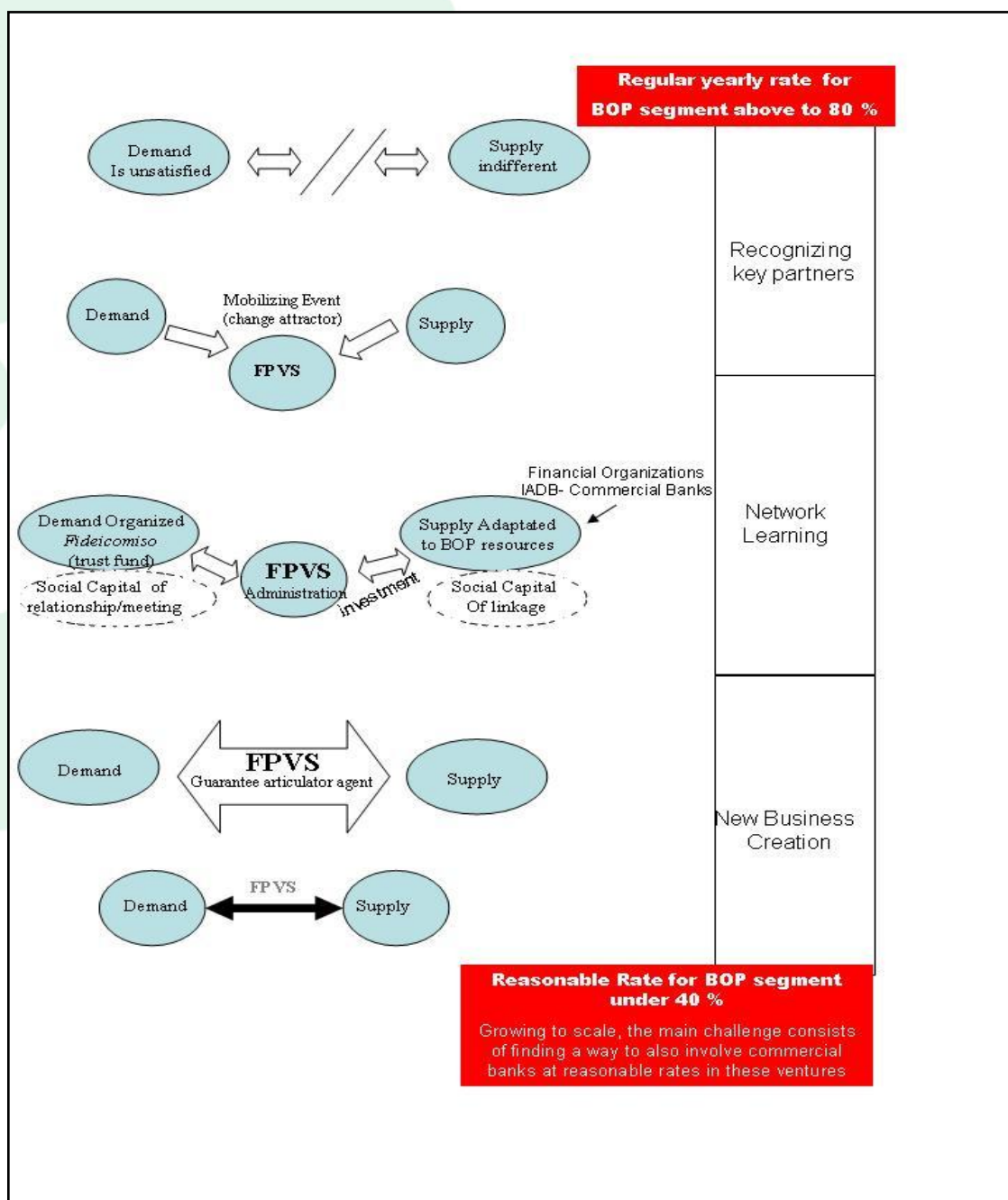
guarantor of the families' loans. FPVS's financial support also facilitated the loans. The same commitment was made by the Financial Organizations that traditionally distrust the BOP market.

These relationships connected previously independent actors (see Figure 3). Resources and activities were redistributed with FPVS acting as a facilitator. FPVS was able to strengthen the involvement of all the actors by making the process more transparent and more structured. It thus played a vital role in promoting commitment between the parties.

Community participation involved fringe stakeholders in the decision-making process and brought new business ideas to life (Phase 1, Figure3). It built shared beliefs and values that allowed for the creation of connections that consolidate relationships between different actors. This is an example of a mutually beneficial business model: the creation of business partnerships with the communities is a win-win situation for all involved parties (organization-stakeholders, stakeholders-organization) (Phase 2, Figure 3).

The FPVS project demonstrates the organizational skills and capacities necessary to successfully engage the BOP market and suggests the feasibility of replicating this model on larger scales elsewhere (Phase 3 in Figure3)

**Figure 3 - Phases to the Network co-creation.**



### 3.2 TRAITS OF THE BOP

As people in poverty have a high degree of creativity and entrepreneurial spirit (Hammond, 2004; Hart and Prahalad, 2002), the BOP has the potential to participate in successful economic organizations. Through participatory research into cooperative learning, increase the knowledge of the people of the base. The result demonstrates a new way to identify interests, beliefs, needs and intentions for the network. Its a dynamic process which results are in a constant evolution.

At FPVS, this was achieved through the process of organizing demand. Initially, this demand organization process was directed by a group of neighbors or local community organizations.

During this stage, the needs of the target population were surveyed, identifying the potential to catalyze action and organization in the neighborhood. It was essential that the demand was catalyzed by a community actor, since the community would participate in the project's management.

Structures and procedures carried out by the organization should promote understanding of this new learning context. It is necessary to be more collaborative with the local community, allowing for adjustments and developing the ability to learn directly from people in poverty. That is, both flexibility and the ability to learn quickly need to become part of the core competencies of the venture (Chambers, 1991; London and Hart, 2005). Through the organization's interactions with the BOP, the stigma of victimization must be replaced with a recognition of their human dignity and ability. In this way, the BOP initiative achieves a greater ability to rise out of poverty and find greater economic opportunities (Prahalad, 2006; SOL 2003).

In sum, therefore, community empowerment comes from listening and doing business with the BOP. Only in this way can the system be modified to build new knowledge for the best and most inclusive social practices.

### 3.2.1 INTEGRATION AND PARTNERSHIP DEVELOPMENT

Building the same code of agreement and disagreement and identifying points of reconciliation in sharing ideas helps mutual integration and partnership development (Hart and Sharma, 2004; London and Hart, 2005; Prahalad, 2006). This new contract supports the cultural change. And when social exchanges persist over time they tend to become institutionalized, often creating situations that attempt to identify other legitimate forms that then become imposed on existing ones. (Lorenzano, 2003). This is demonstrated by FPVS' first pilot initiative, where the participating organizations agreed on the name *Comunidad Organizada*, a voting system, a horizontal control structure, and the common motto "United to Prosper". The community also agreed on the mission of strengthening unity and organization among the residents in order to improve their neighborhoods and quality of life. They agreed on the values of transparency, solidarity, communication, mutual respect, teamwork, and responsive and selfless work. These things all focus on promoting consensus.



Table 1 illustrates the evolution of the BBOP process. Past FPVS projects are in the left column while in the right column, the different benefits gained in what became one of the richest evolutions for all those involved can be found.

**Table 1** - Evolution of the Network process.

	<b>PILOT PROJECT</b>	<b>PROTOTYPE</b>
<b>POVERTY CONCEPT</b>	Organizational rules and an open mind to listen and redefine the FPVS norms and rules. Assumption that poverty is not homogeneous and even those in poverty have resources.	Mutual learning and co-creative solutions.
<b>STRATEGIC THINKING</b>	Disruption in strategies approach and creative management are the key factors to get closer to the BOP.	Radical transactivity: See an opportunity in crisis time and create credit through social solidarity. FPVS acts as a multiplier and enabler of network activities in the community.
<b>NETWORK</b>	Principal actors are unconnected.	Form a network with stakeholders covering the BOP market. Others companies: Gas Natural Ban offers gas for domestic use. Helped to write a balanced draft and to save time and money for the community. Other actors include microfinance groups and approved installers for offered services.
<b>CULTURE CHANGE</b>	From eradicating poverty through housing improvement to engaging in local development at the BOP through community ventures	Stakeholders innovate the way things are done with trust and commitment. The companies also undergo a cultural change, re-thinking logistics, sales and distribution channels. Working from the beginning with construction companies to agree on using local labor whenever possible.
<b>SUPPLY</b>	Understanding of the target market: Poor are low tech, high risk and belong to the informal economies (Prahalad perspective)	It's about new value (price-performance). Focus needs to be in the functionality as understood by the BOP (not like the higher tiers) (Pels, 2007).

<b>DEMAND FACTORS</b>	Argentina is an emerging economy so the demand is unstable and complex.	The customer preference increased for better services. The project included others services (Gas Natural Ban, Financial Organizations) in favor of the community. Prices and quality equivalent to the general market.
<b>IMPACTS</b>	Experience with markets was considered unviable for investment.	The Observatory of Neighborhood Development <sup>li</sup> has also measured the impact of these new initiatives and businesses.
<b>CUSTOMERS CLIENTS</b>	Neighbors as individuals. Non articulated	Organized community with legal representation. The interactions provided an opportunity to build self-esteem and a feeling of empowerment and resilience.

New collaboration opportunities attract skills, combining assets from different sectors to create partnerships. The scaling-out accelerates the leaders' decision making process and helps to design future strategies.

### 3.2.2 THE CHANGE MUST BE BUILT FROM WITHIN THE CULTURE

Making the business work with all stakeholders, including the poor and illiterate, requires an understanding of the "poverty trap." This phenomenon refers to the socio-economic immobility of the lowest income groups. It is reinforced by a vicious cycle in which the norms and limitations of being poor are transmitted from generation to generation (Currie, 1978). Understanding business initiatives aimed at the BOP requires a significant change in business values and a deep understanding of local needs. The key to success with the BOP is the development of resources and knowledge within the community which requires a strong commitment from businesses. There are many cases in which firms sell to the BOP without involving it but their goal is profit rather than development. It is important to be clear on the objectives and the meaning of success. Often, the attitudes and practices of business executives themselves need to be change (Learning Lab, 2007 and 2008<sup>2ii</sup>), these practices are complemented with changes in the community. Together took a

<sup>2</sup> The Observatory of Neighborhood Development moved forward with this plan, with the University Torcuato Di Tella's Masters in Urban Economics program. The result let the case obtain the first set of data quantifying the impact of our projects. More than 800 residents of the zone were interviewed, representing 10 percent of the target population. The results obtained through the Observatory's study prove that the impact on FRS's target population has been manifold. Amongst families who have been incorporated into the gas network, one can clearly see a positive impact on health, with a 30 percent decrease in the likelihood of contracting respiratory ailments.

<sup>2</sup> Argentina Learning Lab in the Base of The Pyramid belongs to the international BOP Learning Lab network; see [www.bopnetwork.org](http://www.bopnetwork.org)

deep learning for the network. FPVS's experience has helped to gain knowledge of community resources and an understanding of the neighborhood leadership that can reinforce the changes necessary for the development of successful businesses. FPVS also showed the capacity to apply cross-cultural management.

The community leaders showed the abilities to tolerate uncertainty, to support collective goals, and to understand that change requires commitment. The genuine interest of all the parties involved creates the energy in the new culture that emerges from the joint management of all the actors (Rainey, 2004, Jericho, 2000, Hofstede, 1999) Culture is transmitted through education. Cultural capital accumulates over time and obtains its legitimacy through instances of validation and power.

Again, time is vital for the entire process and the project needs along term perspective as a ecosystem. Therefore, it should be thought of as a positive interaction when the system is influenced by the interrelated nature of the communications within itself. At last, the long term helps for a new way to create strategies for inclusive business.

### 3.2.3 STAKEHOLDERS DIALOGUE- SOCIAL CAPITAL

Organized management, the engagement of stakeholders, and the maintenance of confidence and loyalty preserve the opportunities for interaction between all the actors and define their functions within the project (Wheeler, Colbert and Freeman 2003). This management model results in the creation of social capital. The social capital concept involves intangible factors such as values, norms, and attitudes of trust which form social networks that facilitate coordination and cooperation to achieve their goals.

The social capital concept recognizes that solidarity and cooperation produce social benefit. Social capital theory is the bridge between the economic approach and the social and cultural development of society.

FPVS and its community partners develop cultural capital and, through education and guidance, show that there is a new way to break the poverty cycle.

**Network learning** indicates that the cycle (loop) is positive between the structure and the strategy of change. Deep learning between the actors is constructed through a dialectical exchange, the feedback of which validates and legitimizes the new approach. The new ideas, theories, tools,

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methods, and innovations complement the previously ignored BOP actors to increase the resources of the business network (stakeholders peripherals).

Only process and evolution, interchange in deeper learning, and conversations concerning topics such as legitimacy for other generations will lead to a new norm and business value system (Senge, Scharmer, Jaworski and Flowers, 2004). As part of the learning process in the following years, FPVS worked directly with the neighbors who became promoters and beneficiaries of the initiative instead of working with the grassroots organizations. Neighbors are more focused on the development of their own neighborhoods than grassroots organizations, whose primary motivation is their own missions.

Ultimately, the organization's attempt to understand how to tackle poverty is complex and dynamic, requiring strategic thinking and systems that enhance learning and virtuous cycles. The BOP is non-traditional but has creative and competitive advantages. The result will be to obtain competitive and social advantages, which can only be solved if all the actors (businesses, nonprofit organizations, social entrepreneurs, and the BOP) are proactive in their support, including the creation of benefits for partners and alliances in the strategic challenge of narrowing the poverty gap (London and Rondinelli, 2003).

**The accomplishment of creating new business** should break the assumptions underpinning traditional business alliances. It should be understood that the success and failure of the agreements are governed by a new order that will arise in an active exchange of new social contracts for a model of inclusive business (London and Hart, 2005).

The case with the BOP results in a business co-venture- a journey that as a virtuous cycle evolves through a scaling-out and therefore gives the power back to the community.

Business strategies focused within the BOP represent a paradigm shift through the establishment of a profound learning process whose effect is the co-generation of ideas and opportunities, as well as the strengthening of local capabilities and socio-economic systems. This creates stakeholder value (Simanis and Hart, 2006). It requires FPVS to deeply involve the key partners to broker a win-win situation between the actors forming new scenarios.

It is also about building social change (empowerment, negotiation skills, and the organization of stakeholders around mutual benefits). It is increased resilience and the building of collective trust and confidence within the community that leads to a common voice (Lanfranchi and Zavalía Lagos, 2008; WRI, 2008; Simanis and Hart, 2008). Finally, giving back decision-making power to both individuals and the community opens a new and bigger market. FPVS contributed to reinforce the relations between supply and demand as a new way to get out of the poverty cycle

through fair transactions.

FPVS breaks the *status quo* by changing the way the organizations view the BOP. It organizes demand by rallying the neighbors around a mobilizing event adapts the supply by lowering the risks through legal tools, such as a trust fund.

An even greater challenge is to concrete the agreements, given by the demarcation of the power leaving the comfort zone between all the actors. Agreements are need to facilitate this redistribution of power in decision making rather than perpetuate a culture of control. Is also part of the mutual consensus process. Those who are able to work on balance, knowing that they have limited security areas on the project and can clear up disagreements, will be one phase ahead. The expected consequence will be a deeper learning through formal organization that will be create by the network alliance, doing inclusive business as a total system (London and Rondinelli, 2003, Senge, Scharmer, Jaworski, and Flowers, 2004).

Consequently, in-depth learning will be reflected in the practice of inclusive strategies that encouraged the business potential both as training and socio-cultural change. These innovative designs, when used properly, have the opposite effect of intervention in this regard (Kandachar, 2007).

They propose a more balanced equation between the generation of skills (personal and organizational), and the use of smart and creative native capacity. Native capacity utilizes local knowledge and resources and thus implies extending the vision to incorporate the organization of the voices that are never heard. The innovation is there, but not in the traditional or core stakeholders. The innovation result is a business ecosystem (shown in Figure 4) that exceeds the network as a result of its own identity and evolution.

The FPVS strategy persuaded business to consider the BOP as a business partner through interactions with the local community. By breaking preconceptions about poverty, listening and thinking with the people in order to gain an understanding of what resources they had, it was possible to devise a solution for home development and gas services. In order to accomplish this, the organizational approach also broke away from management archetypes through the incorporation of routines that develop revolutionary innovation, enacting change and promoting the inclusion of diversity (Prahalad, 2000; Milstein, Hart and London, 2007; Kandachar, 2007). This diversity was provided by the residents through their own wisdom and rules. This creates a positive context for mutual learning and co-creative solutions towards a common goal.

The case implemented the social network by using the residents' own power as a legally represented community to build shared commitment and direct, personal relationships facilitated by



NGO's (in the case *El Colmenar*). FPVS remained transparent and collaborative throughout the process, opening the participation up to the community, strengthening mutual commitment and working toward network resources.

## 4 LESSONS AND NEW CHALLENGES

### 4.1 LESSONS

This case study demonstrated that by considering all actors it is possible to construct a new business model: Business with the Base of the Pyramid ("BBOP") (Chu, 2007). It showed that innovations in management are able to provide "alternatives to overcome poverty, inequity, inequality, and the environmental degradation found at the BOP" (Hart, 2005).

Exists social inclusion by assuming an proactive role, men and women, entrepreneurs, and employees of civic associations are able to affect, in one way or another. The creation of social inclusion is for the entire sector and couldn't be done without the interaction of the parties (Senge, Laur and Schley, 2006; Kandachar, 2007). FPVS proposed to demonstrate that communities were in fact credit-worthy, since they were already purchasing housing materials, natural gas, water, and other basic needs, often at higher prices.

Following the model, FPVS worked at the same level and interaction- stakeholders-company and company-stakeholders- deemed radical transactivity, which allows companies to dynamically manage complex business environments through disruptive change management, and the creation of competitive imagination (Hart and Sharma 2004). The "radical" element of radical transactivity in this case involved stakeholders, from individuals with fractionated decision power to the network force that representative all the parties.. And it was "transactive" because it opened the organisational dialogue with those living in marginality and thus promoted mutual confidence.

The network paradigm worked to create value by using resources more efficiently, integrating different stakeholders, and obtaining economic benefits while addressing the income needs of those at the BOP (Hart and Milstein, 2003; Hart, 2005). Community participation is the key to involving fringe stakeholders in the decision-making process, in the search for and building of shared beliefs and values that will allow for the creation of mental models to face and move forward with new challenges.

By being an organisation that looks for more productivity, FPVS became more competitive. A new business arose through the process of redefining and modifying the model: change of

managerial paradigms, listening to the voice of poverty, new management capabilities, possibilities for stakeholders; internal and external messages that reinforced the organisational reputation, and understanding the solidarity relations which are part of the knowledge BOP (Lassaga, 2006). The work showed equality and respect for the diversity of players. This mutual learning about the resources and limitations of both players is an evolutionary process that deepens and consolidates the formal organisation-BOP alliance (London and Rondinelli, 2003; Senge, Scharmer, Jaworski and Flowers, 2004; Simanis and Hart, 2008).

The FPVS case focuses on the lessons learned through the pilot and prototype program and describes the evolution and progress of the project towards the scaling of the model. The steps necessary to achieve this in the future are described in the following section

## 4.2 NEW CHALLENGES

**From Model to Prototype.** The main challenge of scaling out consists of finding a way to involve commercial banks at reasonable rates in these ventures (Figure 3).

### **From Development Project to Overall Integration with Local Development.**

The second challenge is to develop a reworked plan of integrated participation among neighborhoods and service sectors such as water lines, sewers, garbage services, public spaces, paved roads and sidewalks, as well as improvements in health, education, and business opportunities. The government must also participate through local and national regulations.

**Urban Infrastructure.** The integration of physical infrastructure for low income neighborhoods cannot be developed as isolated initiatives - even a small percentage of failure in participation would subvert the delivery of services. The challenge is to foster full participation within communities through social mechanisms to include the indifferent minority and to provide subsidies in cases of extreme poverty.

FPVS seeks to work with the government in developing a policy framework to support inclusive business models with better legal tools and cross subsidies.

**Generate a Cultural Change in Companies Willing to do Business with the BOP.** These initiatives become a strategic business model for companies due to their economic and social value. Companies introduce changes in their production system, operations and sales in order to serve the BOP market and promote local employment.

## 5 CONCLUSIONS

This successful experience in Argentina sparked the interest of other important players, such as businesses and commercial banks, which are now considering working with the BOP. The decision to do Business “*with*” instead of “*at*” the Base of the Pyramid is an essential element to the approach.

BBOP is not a risk for businesses because the co-venture is a network, and a realistic solution involving all actors.

The logic of the traditional management approach is a barrier. To build a business where there was none before requires new structures and beliefs that permit the redistribution of resources, power decisions and activities. Cultural change is the key for good results.

### **For managers**

Managers must discard the conventional market and business approach and develop their capacities to break down traditional business paradigms (individuals and organizations). The new distribution of roles and power makes visible resource and business structures of others and provides an opportunity to firmly develop them. Added values such as transparency and mutual agreements within the community are empowering assets.

### **For the neighbors**

Working together toward a common goal increases positivity and ensures results in overcoming the poverty trap. Resilience is essential to achieving co-participation in business decisions with social inclusion.

To be a part of the project and be part of its ownership, produces faster results and a very low rate of default.

### **For academics:**

To study and teach the co-venturing with the BOP implies using resources more efficiently and integrating different stakeholders. These need a profound learning process to obtain competitive values for inclusive business.

Begin from a radically different approach to the network's players and recognize the knowledge possessed by stakeholders. The challenge is to help others build strategies and develop business in networks, through a dynamic perspective.

### For the organizations

The challenges in learning how to do business with the BOP derive from the need to proactively adapt the ecosystem that is created by all parties. This evolution is not achieved in the short-term but is the result of the interplay of assimilation/integration (fan-in) and accommodation – both individual and organizational- of mental models (fan-out). It is important to understand that the "fan in" integrates the new with the old knowledge to give continuity in the process. Fan out helps in the evolution and design of strategies for social inclusion (Scharmer, 2007, Hart and Sharma, 2004, Piaget, 1979)

Only time will break the *status quo* and build the capacities to recognize and build bridges with BOP. The result of BBOP is the development of social capital for an inclusive business model, supported in tangible (legal) and intangible (trust, mutual commitments) instruments.

## 6 GLOSSARY

**BBOP:** Business with the Base of the Pyramid.

**BOP:** Base of the Pyramid.

**Comunidad Organizada:** Organized Community.

**Energas:** Government Regulators.

**Fideicomiso:** Trust fund.

**Foncap:** Fondo de Capital Social – Social Capital Fund.

**FPVS:** *Fundación Provivienda Social* .

**FRS:** *Fideicomiso Redes Solidarias*.

**Gas Natural Ban:** main lines for natural gas services.

**IADB:** *Banco Interamericano de Desarrollo*- Inter American Development Bank.

**Manzana organizada:** organized block.

**NGO:** Non-Governmental Organization.

## 7 NOTES

<sup>1</sup> The gas-network expansion plan proposed to bring gas to five neighborhoods in Cuartel V, a zone located on the fringe of the city, covering an area of 518 acres and over 4,000 lots which housed some 20,000 (twenty-thousand) people when the gas-project began.

<sup>1</sup> Natural gas delivered through pipes is four to eight times less expensive than gas from a portable propane tank and is even more economical when compared with firewood or other oil derivatives

<sup>1</sup> Gas Natural Ban distributes gas through main lines.

<sup>1</sup> Dollar quote, April 18, 2002: U\$ 1 equivalent to approximately AR \$ 2.9117 . Data from [www.bcra.gov.ar](http://www.bcra.gov.ar) Banco Central de la República Argentina

<sup>1</sup> New enterprises are interesting in the BOP, for example FERRUM important company in material suppliers.

<sup>1</sup> The Observatory of Neighborhood Development moved forward with this plan, with the University Torcuato Di Tella's Masters in Urban Economics program. The result let the case obtain the first set of data quantifying the impact of our projects. More than 800 residents of the zone were interviewed, representing 10 percent of the target population. The results obtained through the Observatory's study prove that the impact on FRS's target population has been manifold. Amongst families who have been incorporated into the gas network, one can clearly see a positive impact on health, with a 30 percent decrease in the likelihood of contracting respiratory ailments.

<sup>1</sup> Argentina Learning Lab in the Base of The Pyramid belongs to the international BOP Learning Lab network; see [www.bopnetwork.org](http://www.bopnetwork.org)

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